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The share option element

Share option grants were last made under the plan in 2004. As explained above, the committee does not currently intend to make further grants of share options. If the committee were to decide to grant share options in the future, it would take account of relevant best practice at the time. Any share options would be granted at an exercise price, in sterling or US dollars, which would not be less than the market value of the shares under option on the date of grant. All share options would be subject to a demanding performance condition. In the event that a share option holder ceased employment prior to the date on which an option became exercisable, the option would normally lapse unless the committee exercised discretion to preserve the option.

Consequences of certain corporate transactions

In the event of a change of control of BP as a result of a takeover offer or scheme of arrangement under Section 899 of the Companies Act 2006 (other than for the purpose of creating a new holding company), then:

- a if the relevant event occurs before the end of the performance period relating to an award under the performance share or deferred matching elements, the committee will immediately determine the vesting level of awards, taking account of the proportion of the performance period that has elapsed and the degree to which the performance condition has been satisfied; and
- b share options may be exercised in accordance with the terms specified by the committee at the time of grant.

In certain circumstances, awards may be exchanged for equivalent rights over shares in an acquiring company. Unless they are so exchanged, all awards will lapse to the extent that they are not realized within two months of the date of change of control.

General provisions and operation of the plan

The plan is operated in conjunction with an employee discretionary trust (the 'trust') whose trustees are wholly independent of BP.

The maximum number of shares that may be transferred to participants over the five-year extension to the life of the plan from April 2010 will not exceed 0.5% of the company's current issued ordinary shares. In order to avoid equity dilution, no new issues of shares will be made to satisfy awards under the plan. Treasury shares may be transferred to satisfy awards under the plan. Alternatively, the company will make loans or gifts to the trust to enable it to acquire shares on the market for the purpose of satisfying awards.

Awards under the plan may relate to BP ordinary shares or BP ADRs. The committee may, in appropriate circumstances, permit participants to be paid a cash equivalent to the value of the shares to which they would have been entitled under the plan.

Awards under the plan may be made within the period of six weeks following the announcement by the company of its results for any accounting period (or, in exceptional circumstances, at other times). No awards may be made later than five years after the date of the renewal. If the committee considers that the plan should be further renewed, shareholder approval will be sought in 2015.

Awards under the plan are not transferable and may only be realized by the persons to whom they are granted (or, in the case of death, by their personal representatives).

Benefits under the plan are not pensionable. In the case of US-based directors whose bonuses are pensionable, the pensionable amount will be calculated by reference to bonus prior to an amount being deferred into shares under the deferred matching element.

In the event of a variation of the company's ordinary share capital (for example, by reason of a bonus issue or rights issue) or the demerger of a business or subsidiary, the number of shares subject to an award (and, in the case of an option, the exercise price) may be adjusted in such manner as the committee (on the recommendation of the auditors) thinks fit.

The committee may alter the rules of the plan, provided that alterations to the basic structure of the plan that are to the advantage of actual or potential participants may not be made without the prior approval of shareholders in general meeting. The requirement to obtain the prior approval of shareholders will not, however, apply to any alteration to benefit the administration of the plan. In addition, no amendment may operate to affect adversely any right already acquired by a participant.

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Appendix 3

Scrip Dividend Programme – Summary Terms and Conditions for Ordinary Shareholders

Below is the summary of the Terms and Conditions of the BP p.l.c. Scrip Dividend Programme ('Programme') applicable to ordinary shareholders. The Summary of Terms applicable to ADR holders are set out in the separate summary sent to ADR holders with *Notice of BP Annual General Meeting 2010*. Participation in the Programme will be subject to and in accordance with the full Terms and Conditions. The full Terms and Conditions, these Summary Terms and Conditions and the separate Summary of Terms for ADR holders may be found at www.bp.com/scrip. If you require a hard copy of the full Terms and Conditions or otherwise need help, please contact our Registrars, Equiniti, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA or by telephone on 0800 701107 or by email at bpmailbox@equiniti.com.

The Programme is subject to shareholder approval, which will be sought at the company's upcoming annual general meeting on 15 April 2010. Thereafter, this approval must be renewed by shareholders every five years if the directors wish to continue the Programme.

What is the Scrip Dividend Programme?

The Programme enables our ordinary shareholders and ADR holders to elect to receive new fully paid ordinary shares in BP (or ADRs in the case of ADR holders) instead of cash.

The operation of the Programme is subject always to the directors' decision to make the scrip offer available in respect of any particular dividend. Should the directors decide not to offer the scrip in respect of any particular dividend, cash will automatically be paid instead.

Who can join?

Ordinary shareholders

The Programme is open to all of our ordinary shareholders subject to certain restrictions for overseas shareholders as set out below. The right to elect to join the Programme is not transferable. This summary sets out how ordinary shareholders can participate in the Programme.

ADR holders

Through the depositary JPMorgan Chase Bank, ADR holders can join the Programme on terms and conditions of participation, which differ from those described in this summary. Details of how the Programme will work for ADR holders are provided in the separate Summary of Terms for ADR holders, which has been sent to ADR holders with the *Notice of BP Annual General Meeting 2010*. It can also be found on our website at www.bp.com/scrip. Any enquiries about the participation of ADR holders in the Programme should be made to JPMorgan Shareowner Services toll-free at +1-877-638-5672.

Overseas shareholders

If you are a shareholder who is resident outside the UK you may treat this as an invitation to elect to join the Programme unless you could not lawfully participate without any further obligation on the part of BP or your participation would not be in compliance with any registration or other legal requirements. Any person resident outside the UK wishing to receive scrip shares is responsible for ensuring that their election can, without any further obligation on BP, be validly made and for observing all formalities and any resale restrictions that may apply to the new shares. If you are not satisfied that this is the case, you may not participate in the Programme or make a Scrip Dividend election.

What is the deadline for joining (or leaving) the Programme for a particular dividend?

The Programme is expected to apply to the first quarter 2010 interim dividend, which is expected to be announced on 27 April 2010 and paid on 21 June. In such case, Scrip Dividend elections for non-CREST participants must be received by our Registrars, Equiniti, and CREST elections input through CREST, before 4.30 p.m. (London time) on 1 June 2010 to apply to this dividend. Elections received or input after this deadline will apply to subsequent dividends only.

For future dividend entitlements, non-CREST participants must ensure that their Scrip Dividend elections are received by Equiniti, and CREST participants must input their instructions through CREST, before 4.30 p.m. (London time) on the election date to be announced by BP, that will not be more than 20 business days before the relevant dividend payment date.

The ex-dividend date, reference share price, election date and all further information in respect of any scrip dividends will be announced and made available on the BP website at www.bp.com/scrip.

If you wish either to participate in the Programme or to terminate your participation, you will need to follow the election instructions set out below, depending on whether you hold paper share certificates or hold your shares electronically through CREST.

How do I join (or leave) the Programme if I hold share certificates (not through CREST)?

How do I elect to receive scrip shares?

To join the Programme, please complete the Scrip Dividend Mandate Form included with the *Notice of BP Annual General Meeting 2010* and return it to our Registrars, Equiniti, unless you are already enrolled in the current Dividend Reinvestment Plan – see the question below relating to DRIP participants. Alternatively, please go to www.bp.com/scrip and follow the link to register your election online. You are free to change any previous elections as long as your new election is received by our Registrars, Equiniti, by the deadline above.

Will I have to make separate elections to receive scrip shares for each dividend?

No. Unless and until it is revoked by notice from you to our Registrars, Equiniti, either in writing or via our website at www.bp.com/scrip, your Scrip Dividend election will apply for all future dividends for which a scrip dividend is offered.

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How can I cancel my election?

You may cancel your election to receive scrip shares at any time. However, notice of cancellation must be given in writing to our Registrars, Equiniti, or to them via our website at www.bp.com/scrip by the election date to be announced by BP, that will not be more than 20 business days before the relevant dividend payment date, for it to be effective for that dividend. Notice must be received by Equiniti before 4.30 p.m. (London time) on that election date. (See above: 'What is the deadline for joining (or leaving) the Programme for a particular dividend?')

How do I join (or leave) the Programme if I hold my shares electronically through CREST?

How do I elect to receive scrip shares?

If you hold your shares in CREST you can elect to receive dividends in the form of new ordinary shares through the CREST Dividend Election Input Message. By doing so you confirm your election to participate in the Programme and your acceptance of the full Terms and Conditions found at www.bp.com/scrip, as may be amended from time to time. Other forms of election, including a paper form of election, may not be accepted.

The Dividend Election Input Message must contain the number of shares relating to your election if it is made by a CREST shareholder, acting on behalf of more than one beneficial holder, and it is to apply to fewer than the number of shares held at the record date. If the number of elected shares is zero then it will be rejected. If the number of elected shares is either (i) greater than the shares held at the relevant record date or (ii) blank, then the election will be applied to the holding as at the relevant record date.

Once an election is made using the CREST Dividend Election Input Message system it cannot be amended. Therefore, if you wish to change your election, you would need to cancel your previous election.

Will I have to make separate elections to receive scrip shares for each dividend?

A CREST shareholder wanting their election to apply to all future dividends for which the Programme is available, needs to complete the evergreen box on the Dividend Election Input Message. If a CREST shareholder, acting on behalf of more than one beneficial holder, enters a number of shares, that number of shares will be used for future dividends, unless revoked, where sufficient shares are held as at the record date or, if insufficient shares are held as at the record date, then the election will apply to the record date balance.

How can I cancel my election?

CREST shareholders can only cancel their election through the CREST system. CREST Messages should not be used to change an election in respect of the Programme that was not made through CREST. A CREST notice of cancellation will take effect on its receipt and will be processed by our Registrars, Equiniti, in respect of all dividends payable after the date of receipt of such notice. A notice of cancellation must be received by the election date to be announced by BP, that will not be more than 20 business days before the relevant dividend payment date, for it to be effective for that dividend. Notice must be received before 4.30 p.m. (London time) on that election date. (See 'What is the deadline for joining (or leaving) the Programme

for a particular dividend?') Future dividends paid in cash will be paid by cheque or to any bank account previously mandated for the receipt of dividends.

What if I sell or buy shares?

Your Scrip Dividend election will be deemed to be cancelled in relation to any shares you sell or transfer to another person, but only with effect from the registration of the relevant transfer. If you have bought any additional ordinary shares and they are registered prior to the record date for any dividend to which you are entitled, the additional shares will be covered by your existing Scrip Dividend election. Your election will also terminate immediately on receipt of notice of your death. If a joint shareholder dies, the election will continue in favour of the surviving joint shareholder(s) (unless and until cancelled by the surviving joint shareholder(s)).

How many new shares will I receive?

As dividends are announced in US dollars, the amount of new ordinary shares you are entitled to receive will be calculated on the basis of your total cash dividend entitlement in US dollars, plus any residual entitlement brought forward from a previous scrip dividend or your participation in the DRIP.

As no fraction of a new ordinary share will be issued, any residual cash balance will be retained by the company on your behalf and carried forward (without interest) to be included in the calculation of the next dividend entitlement.

The example set out in the box at the end of this summary shows how the number of new shares will be calculated.

What happens to any residual cash balances if I leave the Programme?

In keeping with common practice followed by other company schemes, any residual balance remaining in your account on cancellation of your election by you or disposal of your entire shareholding will be paid to ShareGift, unless instructed otherwise in writing in advance by you. If you instruct us that you wish to receive your residual cash balance it will be paid to you in GBP at a rate to be determined at the time of payment. ShareGift is an organization that aggregates small shareholdings to sell them and donate the proceeds to a wide range of UK charities. Information relating to ShareGift can be found at www.sharegift.org.

How will I know how many shares I have received?

Once your new shares have been issued, a statement will be sent to you along with your new share certificate (where relevant), showing the number of new ordinary shares issued, the reference share price, and the total cash equivalent of the new ordinary shares for tax purposes. If your cash dividend entitlement, together with any residual cash entitlement brought forward, is insufficient to acquire at least one new share, your statement will explain that no new shares have been issued and will show the total amount of cash to be carried forward.

CREST members will have their accounts credited directly with new ordinary shares on the dividend payment date or as soon as practicable thereafter and will receive a statement as above.

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Are my new scrip shares included in the next scrip dividend?

Yes. All new ordinary shares issued as scrip dividends will automatically increase your shareholding on which the next entitlement to a scrip dividend will be calculated.*

I am a participant in the BP Dividend Reinvestment Plan (DRIP) – will I automatically receive scrip shares?

Yes, if you hold paper share certificates.

The DRIP will be withdrawn subject to and with effect from shareholder approval of the Programme at the annual general meeting. If you currently participate in the DRIP and hold paper share certificates, you will automatically be treated as having elected to participate in the Programme without signing a Scrip Dividend Mandate Form or electing online. If you currently participate in the DRIP and instead of participating in the Programme you wish to receive your dividends in cash, you need to write to or send a revocation form to our Registrars, Equiniti, at the above address, or notify them online via our website at www.bp.com/scrip by the election date to be announced by BP, that will not be more than 20 business days before the relevant dividend payment date. Notice must be received by 4.30 p.m. (London time) on that election date. Revocation forms can be found attached to DRIP certificates and statements. Revocation instructions cannot be taken over the phone.

No, if you hold shares electronically through CREST.

If, as a CREST nominee, you have previously submitted an evergreen CREST Dividend Election Input Message for the DRIP, this will automatically be deleted and should you wish to join the Programme, you will need to submit a CREST Dividend Election Input Message for the Programme.

What happens to my residual entitlements under the DRIP?

As DRIP participants holding paper share certificates are automatically treated as having elected to participate in the Programme, any residual DRIP entitlements standing to your credit at the time of introduction of the Programme will be converted from GBP to US dollars as at the 4 p.m. Bank of England sterling spot rate on 14 April 2010 and will be carried forward (without interest) for inclusion in the calculation of the next dividend entitlement under the Programme. If you hold shares electronically through Crest, or, as a holder of paper certificates you inform our Registrars, Equiniti, that you wish to receive your dividends in cash, any residual DRIP entitlements standing to your credit will be paid to you in GBP.

When will I receive my share certificate?

Subject to the new shares being admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange, your new share certificate will be posted to you on or about the same date as dividend cheques are posted (or payment is otherwise made) to shareholders who are taking the dividends in cash. The relevant dates will be announced at www.bp.com/scrip. Documents are sent at the shareholder's risk.

Does the Programme apply to ordinary shares held in joint names?

Yes, but for Scrip Dividend elections made using the Scrip Dividend Mandate Form, all joint shareholders need to sign.

What happens if I have more than one holding?

If your shares are registered in more than one holding, each holding will require a separate election. If you would like to combine your holdings, contact our Registrars, Equiniti.

Can I participate in the Programme in respect of part of my holding?

No, your Scrip Dividend election will only be accepted in relation to the whole of your shareholding. The directors may, at their discretion, allow shareholders to elect in respect of part of their shareholding where they are acting on behalf of more than one beneficial holder.

Can the company change or cancel the Programme?

Yes, the operation of the Programme is always subject to the directors' decision to make an offer of new ordinary shares in respect of any particular dividend. The directors may also, after such an offer is made, revoke the offer generally at any time prior to the issue of new ordinary shares under the Programme. The Programme may be modified, suspended or terminated at any time at the discretion of the directors without notice to shareholders individually.

In the case of any modification, existing Scrip Dividend elections (unless otherwise specified by the directors) will be deemed to remain valid under the modified arrangements unless and until our Registrars, Equiniti, receive a cancellation from non-CREST participants in writing or via our website www.bp.com/scrip or CREST participants input their instructions to cancel. In the case of termination of the Programme, existing elections will be deemed to have been cancelled as at the date of such termination. If the directors revoke an offer (or otherwise suspend or terminate the Programme), shareholders will receive their dividends in cash on or as soon as possible after the dividend payment date. In keeping with common practice followed by other company schemes, any residual balance remaining in your account will be paid out to ShareGift and not remitted to individual shareholders. Any announcement of any cancellation or modification of the terms of the Programme will be made on the company's website at www.bp.com/scrip.

What are the tax consequences?

The tax consequences of electing to receive new ordinary shares in place of a cash dividend will depend on your individual circumstances. If you are not sure how you will be affected from a tax perspective, you should consult your solicitor, accountant or other professional adviser before taking any action. The following summary is not exhaustive and is the company's understanding of the tax position as at 26 February 2010.

UK resident ordinary shareholders should not incur any dealing costs, stamp duty or stamp duty reserve tax in relation to the shares they receive under the Programme.

UK resident individual shareholders

Income tax

An individual shareholder who is a UK resident, and elects to receive new ordinary shares, will have the same liability to income tax as the shareholder would have had on the receipt of a cash dividend of an amount equal to the 'cash equivalent' of the new ordinary shares. The 'cash equivalent' of the new ordinary shares will be the amount of the cash dividend that the shareholder would have received absent

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an election to take new ordinary shares, unless the market value of the new ordinary shares on the first day of dealings on the London Stock Exchange differs substantially from the cash dividend forgone (i.e. differs by 15% or more of such market value) in which case the market value will be treated as the 'cash equivalent' of the new ordinary shares for taxation purposes.

Where individual shareholders elect to receive new ordinary shares in place of a cash dividend, they will be treated as having received gross income of an amount which, when reduced by income tax at the rate of 10%, is equal to the 'cash equivalent' of the new ordinary shares. Income tax at the rate of 10% is treated as having been paid on this gross income.

Individuals who currently pay income tax at the basic rate will have no further liability to income tax in respect of the new ordinary shares received. Individuals who are subject to income tax at the rate of 40% will be liable to pay income tax at the dividend upper rate of 32.5% on the gross income that they are treated as having received. The 10% income tax deemed to have been paid can be set off against part of that liability, thereby reducing the liability to 22.5% of the amount of the gross income treated as having been received (which is equal to 25% of the 'cash equivalent' of the new ordinary shares). Subject to what is said above in relation to the determination of the 'cash equivalent' of the new ordinary shares, this treatment is the same as that for cash dividends.

No tax repayment claim may be made on either a cash dividend or in respect of new ordinary shares taken by non-taxpaying individuals.

The Finance Act 2009 provides for, with effect from 6 April 2010, a new tax rate expected to be 50% for taxable income above £150,000 per annum. Dividends (whether paid to shareholders as cash or as new ordinary shares), which would otherwise be taxable at the new 50% rate would, however, be subject to income tax at a new rate of 42.5%. The 10% income tax deemed to have been paid could be set off against part of that liability, thereby reducing the liability to 32.5% of the amount of the gross income treated as having been received (which is equal to approximately 36.11% of the 'cash equivalent' of the new ordinary shares).

Capital gains tax

For capital gains tax purposes, if an election to receive new ordinary shares instead of a cash dividend is made, such shares will be treated as a new asset acquired on the date the shares are issued and the 'cash equivalent' of the new ordinary shares (as described above) will be treated as being the base cost of the new ordinary shares.

Other shareholders

UK resident trustees, corporates, pension funds and other shareholders, including overseas shareholders, are referred to paragraph 18 of the full Scrip Dividend Programme Terms and Conditions available at www.bp.com/scrip and are advised to contact their professional advisers in relation to their own tax circumstances in relation to the Programme.



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Example calculation of scrip share entitlement

Number of ordinary shares owned: 1500

Dividend in US\$: US\$0.14 per share

Residual cash balance from previous dividend entitlement: US\$5.40

Step 1: Cash entitlement – As dividends are announced in US dollars (US\$), the amount of cash dividend payable is calculated by multiplying the number of shares owned by the dividend per share in US dollars, adding any outstanding residual cash balance that may be left over from a previous dividend (or the DRIP).

$(1500 \times \text{US\$}0.14) + \text{US\$}5.40 = \text{US\$}215.40$ total cash entitlement

Step 2: Reference share price – To determine how many scrip shares should be issued to reflect the cash entitlement we need to determine the 'reference share price' for BP shares. This is an indicative price that represents the current market value of the company's shares. We use the average of the closing mid price (converted into US\$) for BP's ordinary shares on the London Stock Exchange Daily Official List for the four dealing days commencing on the ex-dividend date.

Assuming average closing prices over four days converted into US\$ on the day: $(\text{US\$}9.60 + \text{US\$}9.52 + \text{US\$}9.56 + \text{US\$}9.72) \div 4 = \text{US\$}9.60$ per ordinary share

Step 3: Scrip share entitlement – The number of scrip shares to be issued is calculated by dividing the cash entitlement (from Step 1) by the reference share price (from Step 2). However, only whole numbers of shares can be issued, so this number is rounded down if required.

$\text{US\$}215.40 \div \text{US\$}9.60 = 22.4375$ shares, of which only 22 ordinary scrip shares can be issued

Step 4: Residual cash balance – The share entitlement (from Step 3) is multiplied by the reference share price (from Step 2). This is then subtracted from the total cash entitlement (from Step 1) with the result being the amount of cash entitlement left over. This is the residual cash balance, which is carried forward and put towards the calculation of the next dividend entitlement.

$\text{US\$}215.40 - (22 \times \text{US\$}9.60) = \text{US\$}215.40 - \text{US\$}211.20 = \text{US\$}4.20$ residual cash balance

Expected timetable assuming Q1 2010 dividend entitlement

Annual general meeting	15 April 2010
Q1 results and US dollar cash dividend announcement date	27 April 2010
Ordinary shares quoted ex-dividend	5 May 2010
Record date for Q1 interim dividend	7 May 2010
Reference share price announcement date	11 May 2010
Latest date for receipt of Scrip Dividend Mandate Forms/elections for Q1 interim dividend (election date)	1 June 2010
Sterling cash dividend announcement date	8 June 2010
Dividend payment date	21 June 2010
First date of dealings in the new shares	21 June 2010